

**Hartford Insurance Company of the Midwest
4040 Vincennes Circle, Ste 100
Indianapolis, Indiana, 46268**

NAIC COMPANY 37478

**MARKET CONDUCT EXAMINATION REPORT
as of December 31, 2002**

**COLORADO DEPARTMENT OF REGULATORY AGENCIES
DIVISION OF INSURANCE**

**PREPARED BY INDEPENDENT CONTRACTORS FOR
COLORADO DEPARTMENT OF REGULATORY AGENCIES
DIVISION OF INSURANCE**

**Hartford Insurance Company of the Midwest
4040 Vincennes Circle, Ste 100, Indianapolis, Indiana, 46268**

**MARKET CONDUCT
EXAMINATION REPORT**

**as of
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Prepared by

Gary L. Domer, CIE

James H. Daughan, CPCU, CIE, AIM

Independent Contract Examiners

December 10, 2003

The Honorable Douglas Dean
Commissioner of Insurance
State of Colorado
1560 Broadway Suite 850
Denver, Colorado 80202

Commissioner Dean:

In accordance with Sections 10-1-203, C.R.S. and 10-3-1106, C.R.S., an examination of selected underwriting and claims practices of the Hartford Insurance Company of the Midwest's private passenger automobile business has been conducted. The Company's records were examined at the Reno Personal Lines Business Center located at 5190 Neil Road Reno, NV, 89502 and the Western Personal Lines Service Center located at 10400 North 25th Ave, Phoenix, AZ, 85021. The examination covered a twelve-month period from January 1, 2002, to December 31, 2002.

A report of the examination of the Hartford Insurance Co. of the Midwest is, herewith, respectfully submitted.

Gary L. Domer, CIE
James H. Daughan, CPCU, CIE, AIM

Independent Market Conduct Examiners

**MARKET CONDUCT
EXAMINATION REPORT
OF
Hartford Insurance Company of the Midwest**

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COMPANY PROFILE

Hartford Insurance Company of the Midwest

The Hartford Insurance Company of the Midwest was incorporated on September 11, 1979, as an Indiana stock property and casualty insurance Company and commenced business on January 1, 1980. The Company is wholly owned by the Hartford Financial Services Group. It was admitted in Colorado to write Property and Casualty business on November 21, 1989.

The Company's home office is in Hartford, CT and Colorado business is serviced through the Reno Personal Lines Regional Office located at Reno, Nevada and the Western Personal Lines Claim Service Center located at Phoenix, Arizona. The Company has a nationwide staff of 2,934 active agents.

In 2002 the Company had 5,175 private passenger automobile policies in force in Colorado.

* The Company reported \$10,555,000 in private passenger automobile written premium in Colorado during 2002, representing a .36% market share of all private passenger automobile insurance written in Colorado during 2002. **

*Data as reported by the Company

**Data as reported in the Colorado Insurance Industry Statistical report

PURPOSE AND SCOPE OF EXAMINATION

This market conduct report was prepared by independent examiners contracting with the Colorado Division of Insurance for the purpose of auditing certain business practices of insurers licensed to conduct the business of insurance in the State of Colorado. This procedure is in accordance with Colorado insurance law, Section 10-1-204, C.R.S., which empowers the Commissioner to supplement his resources to conduct market conduct examinations. The findings in this report, including all work product developed in the production of this report, are the sole property of the Colorado Division of Insurance.

The purpose of the examination was to determine the Company's compliance with Colorado insurance law and with generally accepted operating principles related to automobile insurance laws. Examination information contained in this report should serve only these purposes. The conclusions and findings of this examination are public record. The preceding statements are not intended to limit or restrict the distribution of this report.

The examination was governed by, and was performed in accordance with, procedures developed by the National Association of Insurance Commissioners and the Colorado Division of Insurance. In reviewing material for this report the examiners relied primarily on records and material maintained by the Company. The examination covered twelve months of the Company's operations, from January 1, 2002, to December 31, 2002.

File sampling was based on a review of underwriting and claim files systematically selected from file runs provided by the company. Sample sizes were chosen based on procedures developed by the National Association of Insurance Commissioners. Upon review of each file, any findings were noted on a comment form and delivered to the Company for review. Once the Company was advised of a finding contained in a comment form the Company had the opportunity to respond and was requested to agree, disagree or otherwise justify the Company's noted action. At the conclusion of the examination the Company was provided a summary of the findings.

The examination report is a report by exception and much of the material reviewed is not addressed in the written report. Reference to any practices, procedures, or files, which manifested no improprieties, was omitted.

An error tolerance level of plus or minus ten dollars (\$10.00) was allowed in most cases where monetary values were involved. However, in cases where monetary values were generated by computer or other systemic methodology, a zero (\$0) tolerance level was applied in order to identify possible system errors. Additionally, a zero (\$0) tolerance level was applied in instances where there appeared to be a consistent pattern of deviation from the Company's established policies, procedures, rules and/or guidelines.

When sampling was involved, a minimum error tolerance level of five percent (5%) was established to determine reportable exceptions. However, if an issue appeared to be systemic, or when due to the sampling process it was not feasible to establish an exception percentage, a minimum error tolerance percentage was not utilized. Also, if more than one sample was reviewed in a particular area of the examination (e.g. timeliness of claims payment), and if one or more of the samples yielded an exception rate of five percent (5%) or more, the results of any other samples with exception percentages less than five percent (5%) were also included.

The report addresses only Private Passenger Automobile issues and contains information regarding exceptions to the Colorado Insurance Code. The examination included review of the following five (5) Company operations:

1. Company Operations and Management
2. Complaint Handling
3. Agents
4. Underwriting and Rating
5. Claims

Certain unacceptable or non-complying practices may not have been discovered in the course of this examination. Additionally, findings may not be material to all areas that would serve to assist the Commissioner. Failure to identify or criticize specific Company practices does not constitute acceptance by the Colorado Division of Insurance. Examination findings may result in administrative action by the Division of Insurance.

EXAMINERS' METHODOLOGY

The examiners reviewed the Company's Private Passenger Automobile underwriting and claims practices to determine compliance with the Colorado insurance law.

Exhibit 1

Law	Subject
Section 10-1-205	Financial Examination Reports
Section 10-4-401	Purpose-applicability
Section 10-4-602.	Basis for Cancellation.
Section 10-4-603.	Notice.
Section 10-4-604.	Nonrenewal.
Section 10-4-605.	Proof of notice.
Section 10-4-609.	Insurance protection against uninsured motorists-applicability.
Section 10-4-610.	Property damage protection against uninsured motorists.
Section 10-4-611.	Elimination of discounts – damage by uninsured motorist.
Section 10-4-613.	Glass repair and replacement.
Section 10-4-614.	Inflatable restraint systems – replacement – verification of claims.
Section 10-4-706.	Required coverages – complying policies – PIP examination program.
Section 10-4-706.5.	Operator's policy of insurance.
Section 10-4-707.5.	Ridesharing arrangements – benefits payable – required coverage.
Section 10-4-708.	Prompt payment of direct benefits.
Section 10-4-709.	Coordination of benefits.
Section 10-4-710.	Required coverages are minimum.
Section 10-4-711.	Required provision for intrastate and interstate operation.
Section 10-4-713.	No tort recovery for direct benefits.
Section 10-4-714.	Limitation on tort actions.
Section 10-4-715.	No limitation on tort action against non-complying tort-feasors.
Section 10-4-717.	Intercompany arbitration.
Section 10-4-718.	Quarterly premium payments.
Section 10-4-719.	Prohibited reasons for nonrenewal or refusal to write a policy of automobile insurance applicable to this part 7.
Section 10-4-719.5.	Discriminatory standards – premiums – surcharges – proof of financial responsibility requirements.
Section 10-4-719.7.	Refusal to write, changes in, cancellation, or nonrenewal of policies prohibited.

Section 10-4-720.	Cancellation – renewal – reclassification.
Section 10-4-721.	Exclusion of named driver.
Section 10-4-724.	Reduction in rates for drivers aged fifty-five years or older who complete a driver's education course - legislative declaration.
Section 10-4-725.	Certification of policy and notice forms.
Section 10-3-1103.	Unfair methods of competition and unfair or deceptive acts or practices prohibited.
Section 10-3-1104.	Unfair methods of competition and unfair or deceptive acts or practices.
Section 10-3-1107	Hearings
Section 10-3-1108	Orders
Section 10-3-1109	Penalty for violation of cease and desist orders
Regulation 1-1-7.	Market Conduct Record Retention.
Regulation 5-1-2.	Application and Binder Forms.
Regulation 5-1-10.	Rate and Rule Filing Regulation
Regulation 5-1-16.	Limitations on the Use of Credit Information or Insurance Scoring.
Regulation 5-2-1.	Relative Value Schedule for No Fault.
Regulation 5-2-2.	Renewal of Automobile Insurance Policies – Excluded Named Drivers.
Regulation 5-2-3.	Auto Accident Reparations Act (No Fault) Rules and Regulations.
Regulation 5-2-6.	Automobile No Fault Cost Containment Options.
Regulation 5-2-8.	Timely Payment of Personal Protection Benefits.
Regulation 5-2-9.	Personal Injury Protection Examination Program.
Regulation 6-1-1.	Limiting coverage.
Regulation 6-2-1.	Complaint Record Maintenance.
Regulation 6-2-2.	Responses to Division Inquiries Regarding Complaints.

Company Operations and Management

The examiners reviewed Company management, implementation, and quality controls, record retention, installment payment plans, anti-fraud plan, forms certification, and timely cooperation with the examination process.

Complaints

The examiners reviewed the Company's complaint log to verify the accuracy of the Company's tracking system. The examiners also evaluated the Company's complaint handling methodology.

Producers

The examiners reviewed new business applications written in the State of Colorado for the period under examination and compared those documents against the list of producers provided by the Company.

Contract Forms and Endorsements

The following Private Passenger Automobile forms and endorsements were reviewed for compliance applicable to the period under examination as filed with the Colorado Division of Insurance.

Title	Form
Personal Auto Policy-Colorado	8505
Suspension of Insurance	A-4103-1
Reinstatement of Insurance	A-4104-1
Amendment of Declarations	A-4109-1
Schedule of Automobiles	A-4112-0
Additional Premium-Financial Resp. Filing	A-4113-0
Additional Insured-Lessor	A-4361-1
Supplementary Application Anti-Theft Device Discount	A-4387-0
Amendment of Declarations (Split Limits)	A-4610-1
Federal Employees Using Autos In Government Business	A-4631-0
Schedule of Automobiles	A-4690-0
Declarations Page	A-4800-0BI
Declarations Page	A-4800-OW
Additional Premium-Financial Resp Filing	A-4893-1
Split Underinsured Motorists Limits	A-4914-0
Replacement Cost Coverage for New Cars	A-5259-0
Waiver of Collision Coverage	A-5260-1
Supplemental Death Benefit	A-5552-0
Customizing Equipment Coverage	A-5305-1
Motor Homes Extension of coverage Endorsement	A-5317-4
Coverage To Damage To Your Auto	A-5320-1
Customizing Equipment Coverage	A-5340-1
Mexican Collision Coverage-Colorado	A-5378-1
Joint Ownership Coverage	A-5392-1
Auto Loan Lease Coverage	A-5393-0
Joint Ownership Coverage	A-5419-1

Title	Form
Optional Limits Transportation Expenses Coverage	A-5420-1
Extended Non-Qowned Coverage For Named Individual	A-5421-0
Covered Property Coverage	A-5422-1
Coverage For Damage to your Auto(Max Limits of Liab)	A-5423-0
Coverage for Audio,Visual Electronic Media and Other Media	A-5424-1
Snowmobile Endorsement (Split Limits)	A-5425-1
Limited Mexico Coverage (Manual)	A-5426-2
Named Non-Owner Coverage	A-5427-2
Miscellaneous Type Vehicle Endorsement	A-5428-2
Participating Coverage For Damage To Your Auto	A-5429-0
Miscellaneous Type Vehicle Amendment	A-5431-1
Increased Limits Transportation Expenses Coverage	A-5438-1
Coverage for Audio, Visual and Data Electronic Equipment	A-5439-2
Personal Auto Policy-Colorado	A-5443-0
Supplemental Death Benefit Endorsement	A-5552-0
Limited Mexico Coverage	A-5579-2
Miscellaneous Type Vehicle Endorsement	A-5614-2
Personal Auto Insurance Program Special Extensions of Cover	A-5660-1
Single Liability Limit	A-5670-0
Single Uninsured Motorists Limit	A-5671-0
Personal Auto Insurance Program Special Ext Coverage	A-5708-0
Coverage for Damage to Your Auto Excl. End	A-5719-0
Amendment of Policy Provisions- Colorado	A-5866-1
Personal Auto Policy summary Disclosure form	CAF-1059-7
Notice of Cancellation Or Non-Renewal-Colorado	CAF-1320-1
Notice of Cancellation Or Non-Renewal-Colorado	CAF-1320-2
Notice of Premium Increase or Reduction in Coverage (Colorado)	CAF-1321-5

Title	Form
Notice of Premium Increase or Reduction in Coverage (Colorado)	CAF-1321-6
Insurance Identification Card	CAF-1380-5
Notice of Premium Increase of Reduction in Coverage	CAF-1321-4
Notice to Loss Payee Termination Of Automobile	CAF-1435-2
Supplemental Application Uninsured Motorists Coverage	CAF-1629-2A
Supplemental application Disclosure form Colorado	CAF-1878-4
Privacy Policy and Practices of the Hartford Financial Services	CAF-2665-0

New Business /Cancellations/Nonrenewals/Surcharges/Rejections/Renewals

For the period under examination the examiners systematically selected the following underwriting samples to determine compliance with underwriting practices:

Review Lists	Population	Sample Size	Percentage to Population
New Business Issued	1620	50	3%
Agents/Agencies	2934	50	1%
Nonrenewals	49	49	100%
Cancellation for Cause	11	11	100%
Cancellation for Non Payment	254	50	2%
Surcharges	731	50	7%
Cancellation in the 1 st 59 days	64	50	78%
Rejections	0	0	0%
Renewals	3550	50	1%

Rating

The examiners reviewed the rate, rule filings, statistical justifications, and methodology submitted to Colorado Division of Insurance for the period under examination. This information was then compared against a sample of new business and renewal policies, rated by coverage, to determine compliance with base rates, territory codes, symbols, class plans, discounts, tier-rating factors, and final premium calculations.

Claims

For the period under examination the examiners systematically selected the following samples to determine compliance of claims handling practices and claims manual rules:

Review Lists Deemed from Property and Casualty of Hartford Exam	Population	Sample Size	Percentage to Population
PIP:	165	50	30%
Other than PIP	1688	50	3%
Denied	43	43	100%
Closed Without Payment	736	50	7%

EXAMINATION REPORT SUMMARY

At the beginning of the examination, the examiners met with the staff and coordinator to discuss the entire audit review process. One of the topics addressed was that although Hartford Insurance Company of the Midwest and Property and Casualty Insurance Company of Hartford are separate entities, there are many common claims practices, and claims are handled in the same location and overseen by the same administrative management.

Therefore, it was agreed by all parties involved; the Company, the Colorado Division of Insurance, and the examiners that the findings resulting from an examination of claims in the Property and Casualty Insurance Company of Hartford during the scope of the examination for the year 2002 will be deemed to apply also to the Hartford Insurance Company of the Midwest.

The Colorado Division of Insurance reserves the right to examine any Company of the group should circumstances arise to warrant an examination.

The examination resulted in six (6) issues arising from the Company's apparent failure to comply with Colorado statutes and regulations that govern all property and casualty insurers operating in Colorado. These issues involved three (3) of the five (5) categories of Company operations examined as follows:

Company Operations and Management: In the area of company operations and management three (3) compliance issues are addressed in this report. These issues arose from Colorado statutory and regulatory requirements that must be followed in the certification and use of forms and maintenance of records. It is recommended that the Company review its operating and management practices and procedures and make the changes necessary to ensure future compliance with applicable statutes and regulations as to each issue. The issues in this area are:

- Certification and use of non-complying forms in violation of Colorado insurance law.
- Failure, in some cases, to maintain policy records in violation of Colorado insurance law.
- Use, in some cases, of a non-complying, uncertified form in violation of Colorado insurance law.

Complaint Handling: In the area of complaint handling no compliance issues are addressed in this report.

Agents: In the area of agents no compliance issues are addressed in this report.

Underwriting/Rating: In the area of underwriting and rating two (2) compliance issues are addressed in this report. These issues arose from Colorado statutory and regulatory requirements that must be complied with whenever policies are canceled, non-renewed, premiums increased or decreased or surcharged. It is recommended that the Company review its underwriting practices and procedures and make the changes necessary to ensure future compliance with applicable statutes and regulations as to each issue. The issues in this area are:

- Issuing, in some cases, policies of insurance not containing coverage requested on the application in violation of Colorado insurance law.
- Failure to include required language when offering a right to protest in violation of Colorado insurance law.

Claims: In the area of claims one (1) compliance issue is addressed in this report. This issue arose from Colorado statutory and regulatory requirements dealing with the payment of claim benefits and the timeliness of claim payments. It is recommended that the Company review its claim handling procedures and make the necessary changes to ensure future compliance with applicable statutes and regulations. The issue in this area is:

- Failure, in some cases, to timely pay PIP benefits in violation of Colorado insurance law.

A copy of the Company's response, if applicable, can be obtained by contacting the Company or the Colorado Division of Insurance.

Results of previous Market Conduct Exams are available on the Colorado Division of Insurance's website at www.dora.state.co.us/insurance or by contacting the Colorado Division of Insurance.

HARTFORD INSURANCE COMPANY OF THE MIDWEST

PERTINENT FACTUAL FINDINGS

PRIVATE PASSENGER AUTO

PERTINENT FACTUAL FINDINGS
OPERATIONS AND MANAGEMENT

Issue A: Certification and use of non-complying forms in violation of Colorado insurance law.

Section 10-3-1104, C.R.S., Unfair methods of competition and unfair or deceptive acts or practices, states, in part:

- (1) The following are defined as unfair methods of competition and unfair or deceptive acts or practices in the business of insurance:

...(u) Certifying pursuant to section 10-4-725 or issuing, soliciting, or using an automobile policy form, endorsement, or notice form that does not comply with statutory mandates. Such solicitation or certification shall be subject to the sanctions described in sections 10-3-1107, 10-3-1108, and 10-3-1109.

Section 10-4-725, C.R.S., Certification of policy and notice forms, states, in part:

- (1) All insurers providing automobile insurance and who are authorized by the commissioner to conduct business in Colorado shall submit an annual report to the commissioner listing any policy forms, endorsements, cancellation notices, renewal notices, disclosure forms, notices of proposed premium increases, notices of proposed reductions in coverage, and such other forms as may be requested by the commissioner issued or delivered to any policyholder in Colorado. Such listing shall be submitted by July 15, 1993, and not later than July 1 of each subsequent year and shall contain a certification by an officer of the organization that to the best of the officer's knowledge each policy form, endorsement, or notice form in use complies with Colorado law. The necessary elements of the certification shall be determined by the commissioner.

- (2) All insurers providing automobile insurance and who are authorized by the commissioner to conduct business in Colorado shall also submit to the commissioner a list of any new policy form, endorsement, cancellation notice, renewal notice, disclosure form, notice of proposed premium increase, notice of proposed reductions in coverage, and any other form as may be requested by the commissioner at least thirty-one days before using such policy form, endorsement, cancellation notice, renewal notice, disclosure form, notice of proposed premium increase, notice of proposed reductions in coverage, and any other form as may be requested by the commissioner.

Section 10-4-720, C.R.S., Cancellation-renewal-classification, states, in part:

(2) An insurer intending to take an action subject to the provisions of this section shall, on or before thirty days prior to the proposed effective date of the action, send written notice by first-class mail of its intended action to the insured at his last known address. The notice shall be in triplicate and shall state in clear and specific terms, on a form which has been certified by the insurer and the insurer has filed a certification with the commissioner that such notice form conforms to Colorado law and any rules or regulations promulgated by the commissioner:

Colorado Insurance Regulation 5-2-3, Auto Accident Reparations Act (No Fault) Rules and Regulations, promulgated by the Commissioner of Insurance under the authority of Sections 10-1-109, 10-4-704, 10-4-704, and 42-1-204, C.R.S., amended effective February 1, 1998, December 1, 2000, and May 1, 2001, states, in part:

E. Rules Limiting Insurers' Action To Refuse To Write, Cancel, Nonrenew, Increase Premium, Surcharge Or Reduce Coverages

2. Notice of proposed actions.

a. A proposal to cancel, nonrenew, increase the premium or reduce coverage under a private passenger motor vehicle insurance policy shall state the actual reason for proposing such action in the notice required by §10-4-720 (2), C.R.S. Only one notice is required to be sent to the insured whose incident resulted in the proposed action. The statement of reasons shall be clear and specific so that a reasonable person can understand it. The insurer shall clearly describe its underwriting rule, policy or guideline which is the basis for the proposed action. A simple recitation of dates and incidents, without further detail, is not acceptable and may cause the insurer's proposed action to be disallowed.

b. Insurers proposing to cancel, nonrenew, increase premium or reduce cover age shall prominently display on the notice form, within or adjoining the paragraph entitled "Your Right to Protest," the following premium payment instructions:

In order to continue your coverage during the period the proposed action is protested, you must continue to make payments according to your current premium payment plan until a decision is made by the hearing officer. You may contact your producer (agent) or the company at (phone number) for further information. Please note that the company may bill you later for any premium difference occurring if the company's action is upheld. This is the only notification you will receive to pay the premium due to continue coverage. If the premium is not paid prior to the effective date of the action listed on the notice, the coverage will lapse.

The company certified forms CAF-1321-5 (Ed 12/92), CAF-1320-2 (Ed 12/00) and CAF-1321-6 (Ed 1292) for use in 2002 to non-renew or cancel policies of insurance that did not contain the required language (*italicized above*), which may be a violation of Colorado insurance law.

Recommendation # 1:

Within 30 days the Company should demonstrate why it should not be considered to be in violation of Sections 10-4-725 and 10-3-1104, C.R.S. If the Company is unable to provide such documentation, the Company should be required to provide documentation demonstrating that it has corrected its practices and procedures and implemented a plan to ensure that all forms certified to the Division of Insurance and all forms used in Colorado are in compliance with Colorado insurance law.

Issue B: Failure, in some cases, to maintain policy records in violation of Colorado insurance law.

Colorado Insurance Regulation 1-1-7, Market Conduct Record Retention, Repealed and Repromulgated (in full) under the authority of § 10-1-109(1), C.R.S., provides, in part: ...

Section 4.RECORDS REQUIRED FOR MARKET CONDUCT PURPOSES

- A. Every entity subject to the Market Conduct process shall maintain its books, records, documents and other business records in a manner so that the following practices of the entity subject to the Market Conduct process may be readily ascertained during market conduct examinations, including but not limited to, company operations and management, policyholder services, claim's practices, rating, underwriting, marketing, complaint/grievance handling, producer licensing records, and additionally for health insurers/carriers or related entities: network adequacy, utilization review, quality assessment and improvement, and provider credentialing. Records for this regulation regarding market conduct purposes shall be maintained for the current calendar year plus two prior calendar years.
- B. Each producer of record, if the carrier does not maintain, shall maintain records for each policy sold, and the records shall contain all work papers and written communications in the producer's possession pertaining to the documented policy.

Private Passenger Autos Surcharged

Population	Sample Size	Number of Exceptions	Percentage to Sample
731	50	14	28%

An examination of 50 files representing 7% of all policies surcharged by the Company in Colorado during 2002 showed fourteen (14) exceptions (28% of the sample) in which the Company failed to maintain notification of an increase in premium.

New Business Issued

Population	Sample Size	Number of Exceptions	Percentage to Sample
1620	50	33	66%

An examination of 50 files representing 3% of all new business policies issued by the Company in Colorado during 2002 showed thirty-three (33) exceptions (66% of the sample) wherein the Company failed to maintain PIP and/or UM selection forms.

Failure to maintain policy records for Market Conduct examinations may be a violation of Colorado insurance law

Recommendation # 2:

Within 30 days, the Company should provide documentation demonstrating why it should not be considered in violation of Regulation 1-1-7. In the event the Company is unable to provide such documentation, it should be required to produce evidence and documentation demonstrating that the Company has amended its record retention procedures to be in compliance with the requirements of Colorado insurance law.

Issue C: Use, in some cases, of a non-complying, uncertified form in violation of Colorado insurance law.

Section 10-4-725, C.R.S., Certification of policy and notice forms, provides, in part:

- (1) All insurers providing automobile insurance and who are authorized by the commissioner to conduct business in Colorado shall submit an annual report to the commissioner listing any policy forms, endorsements, cancellation notices, renewal notices, disclosure forms, notices of proposed premium increases, notices of proposed reductions in coverage, and such other forms as may be requested by the commissioner issued or delivered to any policyholder in Colorado. Such listing shall be submitted by July 15, 1993, and not later than July 1 of each subsequent year and shall contain a certification by an officer of the organization that to the best of the officer's knowledge each policy form, endorsement, or notice form in use complies with Colorado law. The necessary elements of the certification shall be determined by the commissioner.

Regulation 5-2-3 Auto Accident Reparations Act (No-Fault) Rules And Regulations promulgated by the Commissioner of Insurance under the authority of §§ 42-1-204, 10-4-704, 10-4-718, 10-4-719.7, and 10-1-109, C.R.S. states, in part:

E. Rules Limiting Insurers' Action To Refuse To Write, Cancel, Nonrenew, Increase Premium, Surcharge Or Reduce Coverages

- b. Insurers proposing to cancel, nonrenew, increase premium or reduce cover age shall prominently display on the notice form, within or adjoining the paragraph entitled "Your Right to Protest ." the following premium payment instructions:

In order to continue your coverage during the period the proposed action is protested, you must continue to make payments according to your current premium payment plan until a decision is made by the hearing officer. You may contact your producer (agent) or the company at (phone number) for further information. Please note that the company may bill you later for any premium difference occurring if the company's action is upheld. This is the only notification you will receive to pay the premium due to continue coverage. If the premium is not paid prior to the effective date of the action listed on the notice, the coverage will lapse.

Colorado Insurance Regulation 1-1-6, promulgated pursuant to §§ 10-1-109, 10-4-419, 10-4-725, and 10-16-107.2, C.R.S. provides, in part:

B. Filing requirements.

At least 31 days prior to using any new form, subject to the provisions of this regulation, each entity must file in a format prescribed by the Commissioner, a Listing of New Policy Forms including a fully executed certificate of compliance. Any such listing and the applicable certificate of compliance must be prepared individually for each program. Not later than July 1 of each year, each private passenger automobile insurer and claims-made liability insurer must file an Annual Report of policy forms including a fully executed certificate of compliance.

Private Passenger Autos Non Renewed

Population	Sample Size	Number of Exceptions	Percentage to Sample
45	45	16	36%

An examination of 45 files representing 100% of all policies non-renewed by the Company in Colorado during 2002 showed sixteen (16) exceptions (36% of the sample) in which the Company used a non-complying, uncertified form to non-renew policies.

Form CAF-1320-1 (Ed. 12/92) was used to non-renew 16 policies during the examination period 1/1/02-12/31/02. This form does not comply with Colorado Insurance law as described above (italicized) and was not certified for use as required by Colorado insurance law.

Recommendation # 3:

Within 30 days the Company should demonstrate why it should not be considered to be in violation of Section 10-4-725 C.R.S. and Regulation 1-1-6. If the Company is unable to provide such documentation, the Company should be required to provide documentation demonstrating that it has corrected its practices and procedures and implemented a plan to ensure that all forms used in Colorado are certified and comply with Colorado insurance law.

PERTINENT FACTUAL FINDINGS

UNDERWRITING & RATING

Issue D: Issuing, in some cases, policies of insurance not containing coverage requested on application in violation of Colorado insurance law.

Section 10-4-706, C.R.S. Required coverages - complying policies - PIP examination program, states, in part:

(1) Subject to the limitations and exclusions authorized by this part 7, the basic personal injury protection coverages required for compliance with this part 7 are as follows:

(a) Legal liability coverage for bodily injury or death arising out of the use of the motor vehicle to a limit, exclusive of interest and costs, of twenty-five thousand dollars to any one person in any one accident and fifty thousand dollars to all persons in any one accident and for property damage arising out of the use of the motor vehicle to a limit, exclusive of interest and costs, of fifteen thousand dollars in any one accident;

(b)(I) Compensation without regard to fault, up to a limit of fifty thousand dollars per person for any one accident, for payment of all reasonable and necessary expenses for medical, chiropractic, optometric, podiatric, hospital, nursing, X-ray, dental, surgical, ambulance, and prosthetic services, and nonmedical remedial care and treatment rendered in accordance with a recognized religious method of healing, performed within five years after the accident for bodily injury arising out of the use or operation of a motor vehicle; except that, to the extent that the benefits offered pursuant to paragraph (c) of this subsection (1) have not been exhausted, the remaining value of such benefits shall be available to the insured or injured person entitled to benefits for treatment pursuant to this paragraph (b). For purposes of this subparagraph (I), the treatment of neurologic injuries also known as closed-head injuries and their sequelae, temporomandibular joint disorder, craniomandibular disorder, vestibular, auditory, or visual disorders, psychological disorders, and cognitive disorders, that are reasonable, necessary, and arising out of the use or operation of a motor vehicle, shall be considered covered medical or dental procedures. . . .

Section 10-4-610, C.R.S., Property Damage protection against uninsured motorists; states, in part:

(1) Every policy providing insurance for bodily injury caused by uninsured motorists that is delivered or issued for delivery in this state, which policy does not also provide insurance for collision damage, shall provide, at the request of the insured coverage for the protection of persons insured thereunder who are legally entitled to recover damages from the owner or operator of an uninsured motor vehicle because of property damage to the motor vehicle described in the policy arising out of the operation, maintenance, or use of the uninsured motor vehicle. The coverage provided under this section shall cover the actual cash value of the vehicle or the cost to repair or replacement, whichever is less. Any coverage offered pursuant to this section on a vehicle may be subject to a deductible, at the option of the insurer, as with other property damage coverage.

New Business Issued

Population	Sample Size	Number of Exceptions	Percentage to Sample
1620	50	3	6%

An examination of 50 files representing 3% of all new business policies issued by the Company in Colorado during 2002 showed three (3) exceptions (6% of the sample) wherein the Company failed to issue a policy of insurance with the coverages requested on the application.

In one (1) case, Basic PIP was requested and the policy was issued with Basic PIP, 200 M aggregate medical and Exp PPO.

In one (1) case, when added PIP Medical and no limit requested, the Company wrote basic PIP with limits.

In one (1) case, UMPD \$200 deductible was requested and the Company wrote UMPD acv, no deductible.

Failure to issue a policy without coverages requested on the application may be a violation of Colorado insurance law.

Recommendation # 4:

Within 30 days the Company should demonstrate why it should not be considered to be in violation of Sections 10-4-706 and 10-4-610, C.R.S. If the Company is unable to provide such documentation, the Company should be required to provide documentation demonstrating that it has corrected its practices and procedures and implemented a plan to ensure that policies are issued in compliance with Colorado insurance law.

Issue E: Failure to include required language when offering a right to protest in violation of Colorado Insurance law.

Colorado Insurance Regulation 5-2-3, Auto Accident Reparations Act (No Fault) Rules and Regulations, promulgated by the Commissioner of Insurance under the authority of Sections 10-1-109, 10-4-704, 10-4-704, and 42-1-204, C.R.S., amended effective February 1, 1998, December 1, 2000, and May 1, 2001, states, in part:

E. Rules Limiting Insurers' Action To Refuse To Write, Cancel, Nonrenew, Increase Premium, Surcharge Or Reduce Coverages

2. Notice of proposed actions.

a. A proposal to cancel, nonrenew, increase the premium or reduce coverage under a private passenger motor vehicle insurance policy shall state the actual reason for proposing such action in the notice required by §10-4-720 (2), C.R.S. Only one notice is required to be sent to the insured whose incident resulted in the proposed action. The statement of reasons shall be clear and specific so that a reasonable person can understand it. The insurer shall clearly describe its underwriting rule, policy or guideline which is the basis for the proposed action. A simple recitation of dates and incidents, without further detail, is not acceptable and may cause the insurer's proposed action to be disallowed.

b. Insurers proposing to cancel, nonrenew, increase premium or reduce cover age shall prominently display on the notice form, within or adjoining the paragraph entitled "Your Right to Protest," the following premium payment instructions:

In order to continue your coverage during the period the proposed action is protested, you must continue to make payments according to your current premium payment plan until a decision is made by the hearing officer. You may contact your producer (agent) or the company at (phone number) for further information. Please note that the company may bill you later for any premium difference occurring if the company's action is upheld. This is the only notification you will receive to pay the premium due to continue coverage. If the premium is not paid prior to the effective date of the action listed on the notice, the coverage will lapse.

Forms CAF-1321-5 (Ed 12/92), CAF-1320-2 (Ed 12/00) and CAF-1321-6 (Ed 12/92) used in 2002 to non-renew or cancel policies of insurance did not contain the required language (*italicized above*), which may be a violation of Colorado insurance law.

Recommendation # 5:

Within 30 days the Company should demonstrate why it should not be considered to be in violation of Regulation 5-2-3. If the Company is unable to provide such documentation, the Company should be required to provide documentation demonstrating that it has corrected its practices and procedures and implemented a plan to ensure that the required language is included on all necessary forms used in compliance with Colorado insurance law.

PERTINENT FACTUAL FINDINGS

CLAIMS PRACTICES

Issue F: Failure, in some cases, to timely pay PIP benefits in violation of Colorado insurance law.

Section 10-4-708, C.R.S., Prompt payment of direct benefits, states, in part:

(1) Payment of benefits under the coverages enumerated in section 10-4-706 (1)(b) to (1) (e) or alternatively, as applicable, section 10-4-706 (2) or (3) shall be made on a monthly basis. Benefits for any period are overdue if not paid within thirty days after insurer receives reasonable proof of the fact and amount of expenses incurred during that period; except that an insurer may accumulate claims for periods not exceeding one month, and benefits are not overdue if paid within fifteen days after the period of accumulation. If reasonable proof is not supplied as to the entire claim, the amount supported by reasonable proof is overdue if not paid within thirty days after such proof is received by the insurer. Any part or all of the remainder of the claim that is later supported by reasonable proof is overdue if not paid within thirty days after such proof is received by the insurer. In the event that the insurer fails to pay such benefits when due, the person entitled to such benefits may bring an action in contract to recover the same.

Colorado Insurance Regulation 5-2-8, Timely payment of Personal Injury Protection benefits, promulgated by the Commissioner of Insurance under the authority of Sections 10-1-109, 10-4-704, 10-4-708(1.3) and 10-3-1110(1), C.R.S., effective November 1, 1997, amended September 1, 2000, states, in part: ...

B. Prompt Payment of PIP Benefits

Section 10-4-708(1), C.R.S., states that benefits under the coverages enumerated in Section 10-4-706, C.R.S., are overdue if not paid within 30 days after the insurer receives reasonable proof of the fact and amount of the expenses incurred.

Section 10-4-708(1), C.R.S., allows for the accumulation of claims expense for periods not exceeding one month and states that benefits are not overdue if paid within 15 days after the end of a defined period of accumulation. An insurer is permitted by this statute to pay a bill within 15 days after the end of a defined accumulation period only when there is a reasonable likelihood that multiple providers are involved and more than one bill is received during the accumulation period.

C. Requirements Establishing Proof of the Fact and Amount of Expenses Incurred**1. Medical and Rehabilitative PIP benefits**

In the usual case, for purposes of triggering the 30-day time period described in Section 10-4-708(1), C.R.S., the following documents are sufficient to establish reasonable proof of the fact and amount of the expenses incurred for covered medical and rehabilitative PIP benefits:

- a. A properly executed application for benefits from the PIP claimant; and
- b. An initial notice to the insurer from the provider of benefits which meets the requirements of Section 10-4-708.5, C.R.S. or a billing statement for the procedure or treatment which complies with Section 10-4-708.6, C.R.S., and includes pursuant to Section 10-4-708.5 the following:
 - (1) The name and address of the treating health care provider;
 - (2) The evaluation of diagnosis, and the medical procedure performed or the medical treatment provided; and
 - (3) An itemized statement of charges corresponding to the medical service or treatment provided along with corresponding dates of service.

PIP Paid Claims

Population	Sample Size	Number of Exceptions	Percentage to Sample
165	50	7	14%

An examination of 50 systematically selected PIP claim files, representing 30% of all PIP claims paid by the Company during the examination period, showed seven (7) exceptions (14% of the sample) wherein the Company failed to pay PIP benefits within the statutory standard of 30 days.

Failure to pay PIP benefits within the statutory standard of 30 days may be a violation of Colorado insurance law.

This issue deemed from the findings of the Property and Casualty Insurance Company examination report.

Recommendation # 6:

Within 30 days the Company should provide documentation demonstrating why it should not be considered to be in violation of Section 10-4-708, C.R.S. and Regulation 5-2-8. If the Company is unable to provide such documentation, the Company should be required to provide evidence to the Division of Insurance demonstrating that it has reviewed all procedures related to the timeliness of claims handling and the documentation of claim files and has implemented all necessary changes to ensure compliance with Colorado insurance law.

Market Conduct Examination Hartford Insurance Company of the Midwest
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